

**NOMINATIONS OF J. CHARLES PARTEE AND  
STEPHEN McKENZIE DuBRUL, JR.**

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**HEARING**  
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**COMMITTEE ON  
BANKING, HOUSING AND URBAN AFFAIRS  
UNITED STATES SENATE**

**NINETY-FOURTH CONGRESS**

**FIRST SESSION**

**ON**

**THE NOMINATIONS OF**

**J. CHARLES PARTEE TO BE A GOVERNOR OF THE FED-  
ERAL RESERVE SYSTEM**

**AND**

**STEPHEN McKENZIE DuBRUL, JR., TO BE CHAIRMAN OF  
THE EXPORT-IMPORT BANK OF THE UNITED STATES**

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**DECEMBER 18, 1975**

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**Printed for the use of the  
Committee on Banking, Housing and Urban Affairs**



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WASHINGTON : 1976

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# NOMINATIONS OF J. CHARLES PARTEE AND STEPHEN McKENZIE DU BRUL, JR.

THURSDAY, DECEMBER 18, 1975

U.S. SENATE,  
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,  
*Washington, D.C.*

The committee met at 9:45 a.m., pursuant to call, in room 5302, Dirksen Senate Office Building, Senator William Proxmire, chairman of the committee, presiding.

Present: Senators Proxmire, Sparkman, Stevenson, Packwood, and Garn.

The CHAIRMAN. The committee will come to order.

Our first witness this morning is Mr. J. Charles Partee, who has been nominated as Governor of the Federal Reserve Board.

Mr. Partee, I'm going to ask you to take an oath this morning. We are following that policy now and I assume you wouldn't object to doing so. Do you swear that the testimony you are about to give shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. PARTEE. I do.

The CHAIRMAN. Mr. Partee, do you have any statement you would like to make before I begin the questioning?

Mr. PARTEE. No, Mr. Chairman. I'm here to answer your questions and I have no opening statement.

The CHAIRMAN. All right. Do you have any holdings that constitute a conflict of interest?

Mr. PARTEE. I don't believe so. There was a statement submitted to you with a covering memo from the chairman's counsel and I believe that it fully reports the situation.

The CHAIRMAN. Do you agree to appear before congressional committees, appropriate committees, when asked to do so to testify?

Mr. PARTEE. I certainly do.

[Biographical sketch of Mr. Partee follows:]

## BIOGRAPHICAL SKETCH OF J. CHARLES PARTEE

Name: J. Charles Partee.

Address: 931 Leigh Mill Road, Great Falls, Virginia 22066.

Residence: 6½ years at above address; 7 years at 1002 South Mansion Drive, Silver Spring, Maryland; 12 years residence in various suburbs of Chicago, Illinois.

Age: 48. Health: Good. Born: October 21, 1927, in Defiance, Ohio—U.S. Citizen.

Family status: Married, since 1946, to Gail Voegelin Partee, residing at above address. Three children—Eric, Sharon and Pamela—all grown and living away from home.

Education: Primary and secondary—Public schools of Defiance, Ohio; University: B.S. in Business (with distinction), 1948; Indiana University: MBA, (in finance), 1949, Indiana University; Non-degree graduate work in finance and economics, 1952-54, University of Chicago.

#### PROFESSIONAL EXPERIENCE

1948-49—Graduate assistant in finance, Indiana University.  
 1949-56—Economist (specializing in consumer finance, mortgage markets, and savings behavior), Federal Reserve Bank of Chicago.  
 1950-55—Instructor in Money and Banking, American Institute of Banking, Chicago (part-time).  
 1956-61—Associate Economist and (from 1958) Second Vice President, The Northern Trust Company of Chicago, Illinois.  
 1962 to date—Board of Governors of the Federal Reserve System, Washington, D.C.  
 1962-63—Chief, Capital Markets Section, Division of Research.  
 1964-65—Adviser in charge of financial sections, Division of Research.  
 1965-69—Associate Director, Division of Research.  
 1969-74—Director, Division of Research.  
 1973 to date—Managing Director for Research and Economic Policy.

#### OTHER ACTIVITIES

U.S. Representative to (and Vice Chairman of) the Committee on Financial Markets, O.E.C.D., Paris—1970-75.  
 Deputy to Adviser (Chairman Burns) of the Cost of Living Council, 1971-73.  
 Director, Securities Investor Protection Corporation, 1970 to date.  
 Active member, Conference of Business Economists, 1969 to date.

The CHAIRMAN. Now I'd like to get into a series of questions here. You have a very interesting background as a staff member of the Federal Reserve Board. You have been with the Board since 1962, is that correct?

Mr. PARTEE. That's right.

The CHAIRMAN. And prior to that you were associate economist for the Northern Trust Co. in Chicago and prior to that you were an instructor in money and banking.

I have complained about some of the appointees of the Board on the grounds that they haven't had appropriate background. They have known little or nothing about monetary policy and they have had to engage in on-the-job training. That couldn't be said of you. You certainly are as well qualified a nominee as we have had in terms of monetary policy and how the Federal Reserve Board works.

There's been some concern expressed by those who argue that we may be moving in the direction of having too many people on the Board of Governors who have served the System and are within the System. We have Governor Mitchell and Governor Coldwell and Governor Holland, all of whom have this background. You would be the fourth, and I think it's a most helpful and essential background that provides strength and expertise.

What would you say about the problems involved here? One of the problems, of course, is that there may be a lack of independence, a lack of the feeling that you can speak your mind aside and apart from what have been viewed as the interest of the established Federal Reserve Board. What's your reaction to that?

Mr. PARTEE. Well, Mr. Chairman, first let me point out that Governor Mitchell's term ends at the end of January so that if I am confirmed there would be three former staff people from the Federal Reserve.

Second: On the question of independence, I have been on the research staff at the Board for 14 years and in the last 6½ or 7, I have been either Director of Research or Managing Director for the policy function. In that capacity, I have always felt that it has been extremely important to be independent of any member of the Board or the position of any member of the Board and I have actively promoted the idea of independence during that period. I have always given my opinion as I saw it and I would expect to continue to do so. Indeed, I should think that the fact that a person has had a great deal of experience in the technical areas of monetary policy and financial market practice would make him more capable of being independent than if he had not.

The CHAIRMAN. I think there's a lot to that and I understand. In your favor I have gotten correspondence from some of the outstanding economists in the country who argue that you have demonstrated strong independence on the Board. You have been not necessarily a chronic dissenter, but you haven't hesitated to speak your mind even though you disagreed with others on the Board, and so I think that meets one of the problems.

How about the notion that it would be desirable to bring in fresh, outside views with the Governor where it should be somebody that could come to the Board with a perspective that's aside and apart from what the Board has done?

Mr. PARTEE. I think there's a place for that, too. A reporter called me after the announcement of the nomination and asked me about this, and I compared it with a corporate board. I think that it might be very worthwhile on a corporate board to have a few inside members, but you don't want to have the control of the board of a corporation with the inside people because you need to have the external point of view and a fresh point of view.

So I think there's room for both kinds. I think that eligibility should depend basically on the person's ability and background rather than on any particular association that he's had.

The CHAIRMAN. Mr. Partee, one of the problems that has troubled me the most about the Federal Reserve Board is that we are in a situation where we have very high unemployment; we have a weak recovery in the view of many people, including me; we have at the same time, serious inflation based on the historical record although it's better than it was in the recent past. We have been warned again and again by the Chairman of the Federal Reserve Board to follow a more conservative fiscal policy, reduce spending, reduce the deficit—and I agree with that. I agree wholeheartedly with it and I think we have to reduce the deficit.

The problem is, however, what do we do to cope with the serious unemployment problem we have under these circumstances? We cut back the deficit. We cut back Federal spending. We eliminate jobs. My feeling is that one of the areas where we can provide stimulus for the economy in the private sector, where there's discipline and where we can and should grow, is through monetary policy, through monetary policy that would reduce these insufferably high interest rates.

How do you feel we can meet this almost unique problem? We haven't had this in the past in our history to this extent.

Mr. PARTEE. It is an exceedingly difficult economic environment. Because of the problem of inflation on the one hand, which I think is as intense in people's minds as it has been at any time in my experience as an economist, and the problem of unemployment—serious unemployment—on the other, the latitude for policy action is severely constrained.

If, however—and I'm speaking in terms of appropriate permissible rates of monetary expansion—if there were a smaller tap on the capital markets by the Federal Government, given a particular rate of monetary expansion, this would reduce pressures in that market and reduce interest rates. So that with a monetary policy that's essentially unchanged in terms of rates of monetary expansion, and the more conservative budgetary position by the Federal Government, our economy would have lower interest rates and more incentive for private investment to expand.

Now I don't want to be dogmatic about the precise rate of monetary expansion that's appropriate. The point I wish to make is simply that there's a constraint here that has to be kept in mind—namely, the great apprehension and fear of inflation on the part of almost all participants in the economic community.

The CHAIRMAN. Well, I think that concern is certainly very proper concern. The fact is, however, we have an economy that's chugging along on two or three cylinders, not on all eight. We are operating far below capacity. We have a huge excess of idle resources, especially in the area of manpower, and in every other area—I don't know any industry which is at capacity. The Chairman of the Federal Reserve Board has announced a target zone of monetary expansion between 5 and 7½ percent. The Fed has been creeping along near the bottom of that or below it for the last several months and the Congress, it's true, has run a very big deficit which perhaps could change the position of the Fed, but I'm just wondering if, in your view, 5 percent or 5½ percent increase in the money supply over the next year is likely to be adequate to provide the kind of monetary stimulus that we need.

Mr. PARTEE. Mr. Chairman, I have a couple things I'd like to say about that. First, I believe that we must do what can be done to promote a reasonable economic recovery. I can't say in advance how much stimulus will be required from the monetary point of view, because I think that there's a loose relationship between monetary expansion and economic developments.

The CHAIRMAN. But you have to make that determination. You and your fellow governors have to make it. It's up to you. Nobody else does in the economy.

Mr. PARTEE. If I may continue, I believe what we have to do is observe unfolding developments. The third quarter increase in the GNP was very good—a 13-percent-annual rate. The fourth quarter increase looks as if it will be substantially less, perhaps on the order of 6 percent.

What we need to have is an expansion that proceeds steadily at a reasonable rate, but not a high rate—say 6 to 8 percent. This is what I would like to see for an indefinite period ahead.

The CHAIRMAN. Well, my time is almost up. Let me just point out, however, that as we all know, the recovery in the third quarter was primarily an inventory recovery, not entirely but a large part of it.

If you leave that out, there's only about a 4- or 5-percent real growth. It was largely inventory.

This committee is not only a banking committee; it's also a banking, housing and urban affairs committee. We are concerned about housing. High mortgage rates have had a devastating effect on housing. As you know, they are averaging about 9 percent nationally and there's no way that I can see that housing can recover without lower rates and I don't see how we can have a vigorous economic recovery overall when housing is depressed. If we could be at our goals we'd have another 2 million jobs in this economy without inflation because there's ample manpower, lumber, cement, and everything else we need.

Let me just ask, before Senator Sparkman—

Senator SPARKMAN. I'd be very glad for you to go ahead.

The CHAIRMAN. If you can give us your views on what we can do about that.

Mr. PARTEE. I would say, Mr. Chairman, that high interest rates do constrain housing. But so do high prices. I would make the further comment that the improvement in single family building has been pretty good this year. If you look at the figures broken down between single family and multi-family building, we have had something like a cyclical recovery in single-family starts. But the multi-family area is dead for a variety of reasons, including past financial distress by participants in that market, overbuilding in particular areas, and the fact that it's very difficult to prove out a new multi-family project financially from the standpoint of current rentals and cost of construction, including money. There are many problems with the multi-family field currently that transcend monetary policy.

The CHAIRMAN. Isn't an essential reason that you price literally thousands of families out of the market and when you have a 9-percent rate?

Mr. PARTEE. That is a factor. Building costs and land prices have risen to the point where the average house is too expensive for the normal person to buy.

The CHAIRMAN. Senator Sparkman.

Senator SPARKMAN. I shall be very brief because I have to go to another committee meeting.

Mr. Partee, I'm not sure I understood correctly one statement that you made. Did you say that if we had a conservative monetary policy the interest rates would be lower?

Mr. PARTEE. Conservative fiscal policy, Senator.

Senator SPARKMAN. I thought you were talking about monetary policy and it didn't quite make sense to me.

Mr. PARTEE. My point, Senator, was that if you had a given rate of monetary expansion and suddenly reduced the size of the Federal tap on the capital market—that is, the size of the Federal deficit—interest rates would then decline.

Senator SPARKMAN. Well, of course, I can see that. I misunderstood you.

Let me ask you this question. You're a fiscal and monetary expert. We're running these enormous deficits. I used to shudder at the thought of just a medium-sized deficit, but when you talk about \$60 billion or \$80 billion deficit being tolerable I just can't understand it. How are we ever going to pull out of that?

Mr. PARTEE. A large part of the deficit is due to the shortfall in the performance of the economy. That is to say, with lower income flows in the economy the tax revenue produced by the economy is less than it otherwise would be, and with large numbers of people on relief and drawing unemployment compensation, expenditures are higher in those areas than they would normally be.

If one adjusts for the shortfall in the economy's effect on the deficit, there still would be a deficit on the order of \$10 to \$15 billion. Now that \$10 to \$15 billion deficit must certainly be closed, over time, by expenditure restraint or by revenue tax increases. But I don't believe it appropriate to try to seek a balanced budget immediately, because of the fact that this would drain additional purchasing power out of the economy and tend to create even weaker economic conditions.

My point, in sum, is that some of that deficit is going to disappear as the economy comes back, but it's the residual amount that we have to worry about and take care of.

Senator SPARKMAN. I certainly was not suggesting that we proceed immediately to balance the budget, but I hate to see it continue to plunge.

Mr. PARTEE. Yes.

Senator SPARKMAN. I want to follow up a bit on this question about housing. You said you thought there had been a very good recovery in single family homes.

Mr. PARTEE. Single family housing starts have come up very nicely since the lows of last winter, yes.

Senator SPARKMAN. Well, you know the program that we have pushed very heavily in the Congress through this committee and the House Banking Committee has been the 235 homeownership program. Now, of course, that's been suspended since January 1973 and I have felt that there's been a great slump in housing—that is, as measured by the standard of how many we need—and that it has created a great deal of unemployment and that the 235 program—and I think our committee has advocated this and believe this—that that would serve as a great stimulus to the housing program and put people to work and use materials that are in abundant supply.

Now it's true the Secretary of HUD has announced that she will implement that program the first of January and I'm looking forward to that and hoping that it will give us an upturn in housing.

By the way, when Chairman Burns testified before this committee I believe within the last month or so, I asked him if he felt optimistic with reference to an upturn of the economy in the first half of 1976 and he testified that he did. In fact, he said he thought the economy had already started to turn up. Is that right?

Mr. PARTEE. Yes. I'm sure that's what he must have said in his last testimony before the committee and, indeed, there was an increase in the real GNP in the second quarter and a large increase in the third quarter. So the economy is moving up.

Right now we seem to be in a little pause that is bothering people, but I'm rather convinced in my own mind that the economy will resume a rise very shortly.

Senator SPARKMAN. That gives us a little room for optimism, doesn't it?

Mr. PARTEE. Yes. I believe so.

Senator SPARKMAN. Now there's just one other frivolous question I want to ask you. I note you were born in Defiance, Ohio, and got your education in Defiance. Is there any particular significance in the name of the city?

Mr. PARTEE. In the old days it was called Fort Defiance.

Senator SPARKMAN. Was that the Indian front?

Mr. PARTEE. There was a fort there.

Senator SPARKMAN. All right. That has nothing to do with your work.

Mr. PARTEE. I'm not defiant, but I am independent, Senator Sparkman.

The CHAIRMAN. Senator Stevenson?

Senator STEVENSON. I have no questions, Mr. Chairman. Thank you.

The CHAIRMAN. Well, I have a few more questions I'd like to ask you.

Senator SPARKMAN. If you would excuse me, I have to go to the Foreign Relations Committee.

The CHAIRMAN. Yes, indeed.

What monetary policy should we follow, in your view, Mr. Partee, to ease interest rates on mortgages?

Senator SPARKMAN. I did want to say, if I may, Mr. Chairman, that I should very gladly support this nomination and if you vote on it this morning I give you my proxy.

The CHAIRMAN. Very good.

Mr. PARTEE. Well, Mr. Chairman, I think that we have to follow a moderate course in terms of the rate of expansion in money and credit because if we do not do so there will be danger of an acceleration in the rate of inflation and the apprehension of further acceleration in the rate of inflation; if there is a higher inflation I'm convinced there will be higher interest rates. You don't get instant success from following the course of moderate monetary expansion, but I think over time it will lead—with economic recovery and with less inflationary pressure in the economy—to lower long-term interest rates, including mortgage rates. It's a long pull kind of a thing but I believe that's the best prescription.

The CHAIRMAN. So there really isn't any, in your view, help that the Federal Reserve Board can be expected to give to housing in the next year or so that would be significant?

Mr. PARTEE. I don't have any magical solution, no.

The CHAIRMAN. So if we expect to provide any real stimulus for housing we'd better do it here with programs, the kind that Senator Sparkman referred to, or other programs. We passed an emergency housing bill and the President vetoed it, that would have provided for a shallow subsidy for conventional housing, perhaps 7-percent rate of interest—6 or 7 percent. We might, under present circumstances, give great stimulus with a very small Federal expenditure.

We calculated it would bring back to the Federal Government about twice as much in revenue as it would cost in expenditure. At any rate, that kind of program, of course, is the kind of thing we could do that would provide more prompt response in the housing market.

Mr. PARTEE. If there's a particular sector that the Congress believes in the public interest to stimulate, there should be special programs.

Now I would like to point out to you, Senator, that there are lots of offsets that occur in the course of special stimulative efforts. The beneficial effects of any program are almost always exaggerated because of the counter effects that aren't taken into account. I have seen that time and time again over the last 20 years in the housing area.

If, for example, you organize a new corporation that has to borrow on the market in order to take care of its financing needs for housing, that borrowing tends to raise interest rates and tends to draw money out of the thrifts. Therefore, there's a circularity that has to be taken into account.

The program that Senator Sparkman referred to, I believe, is aimed at low and moderate income families and, therefore, there's a social objective as well as the general notion of stimulating housing involved. This kind of program is certainly most appropriate for the Congress to consider.

The CHAIRMAN. I have four or five more questions for you but I see that Senator Javits is here to introduce the next nominee. So what I would like to do is have you stay where you are and ask, Senator Javits, would you present the nominee for the Export-Import Bank? I know you have other engagements. It's a very busy day for you. And then we will go back to Mr. Partee before we take up Mr. DuBrul.

Senator JAVITS. You're very kind.

The CHAIRMAN. Is that all right with the committee?

Senator PACKWOOD. Fine.

The CHAIRMAN. Go ahead, Senator Javits.

#### **STATEMENT OF JACOB K. JAVITS, U.S. SENATOR FROM NEW YORK**

Senator JAVITS. I will be very brief. It isn't often that one can introduce to the committee a fellow New Yorker other than in a formal way, but it so happens that I know a good deal about the nominee for Chairman of the Export-Import Bank, Mr. DuBrul.

In the first place, I aided the search for a chairman because I know the New York banking community so well, and in the second place, Mr. DuBrul is a senior partner in Lazard Freres, where I have a long-standing and very close friend of mine, Andre Freres, who is in my judgment probably the world's leading international banker today. So I know about Mr. DuBrul through him and through his other partners, including, I might inform the chair, Felix Rohr, who was so active in testifying before this committee about New York City and who thinks the world of Mr. DuBrul.

Also, I'd like to commend him to the committee because his life so far—and he's a relatively young man—has been typical of successful people in our country. He's been a very successful banker, a businessman, very well trained academically by Harvard, and is serving on a number of boards of very distinguished and major American companies. So he has done well in his previous connection with Lehman Bros. and with Lazard where he is a general partner.

Second: He has been a fine citizen, associating himself with philanthropic and civic causes in New York and interested in the affairs of our time—interests that I think are very germane to the job with the Export-Import Bank; and third and also important in terms of this job, he has had some governmental experience with the CIA in the 1950s, when it was not the unhappy nest of problems such as in later years; and fourth he also had the honor of being considered a consultant on consumer problems to the Council of Economic Advisers.

So I commend him to the committee. He is just the right age, has just the right training, and I think the committee will find that he has the kind of intelligence and public dedication and desire to give some years of his life to public service—a desire which I think characterizes and distinguishes careers like the one that he presents to us. I commend him to the committee. Thank you very much.

The CHAIRMAN. Thank you very much, Senator Javits.

Now, Mr. Partee, how can Federal Reserve Bank presidents who serve on the Open Market Committee be expected to exercise truly fresh, outside independent judgments in voting on open market policy questions when they are beholden to the governors for their appointments, for their salaries, for their budgets? Surely, this has to give them some pause when they vote. So how can the presidents be expected to be truly independent, independent of the Governors?

Mr. PARTEE. Mr. Chairman, I know all of the presidents personally and I consider them to be independent men with a strong sense of dedication to their own professionalism and their own positions.

Technically, of course, it's the Board of Directors of the Federal Reserve Bank in question that nominates the man for the position of president of a Federal Reserve Bank. The Board in Washington has a veto power, but in the first instance the president is responsible to the board of directors of the individual bank.

One last point. I have been going to the Open Market Committee meetings regularly for 10 years. I haven't noted any appreciable tendency on the part of any of the presidents to be unduly responsive to the thinking of the Board.

The CHAIRMAN. Let me ask about a particular criticism that's been called to my attention. Do you know of any instance where any member of the Board or its staff attempted to rewrite or have rewritten testimony by Federal Reserve Bank presidents?

Mr. PARTEE. No, I do not.

The CHAIRMAN. You were not personally involved in anything like that?

Mr. PARTEE. On one occasion about a year ago I read the proposed testimony of various presidents—I have forgotten exactly what committee they were appearing before. I did not rewrite their testimony or anything of that sort. What I tried to correct were factual errors and that kind of thing.

The CHAIRMAN. That's exactly right. You tried to suggest to them the factual errors. I wonder how independent that testimony is. Why shouldn't the Federal Reserve Bank presidents come before Congress—shouldn't Congress have a right to know where they stand—they have great power on the Open Market Committee—where they stand, regardless of any views that you may have or the staff of the

Federal Reserve Board might have with respect to whether their positions are factual or accurate? Once they speak for you we're not getting their views; we're getting yours.

Mr. PARTEE. They had every right to express their views and I didn't question their views. All I questioned were points of fact that appeared to be in error and I suggested they look into it.

THE CHAIRMAN. But they are so subordinate to you in terms of their salary, their position, their budgets, that when you suggest to them that maybe this isn't quite the way it seems the pressure can be extraordinary.

Mr. PARTEE. There were very few changes, I might say, as a result of my suggestions. If something was found by the staff to be incorrect, there were corrections. That's all.

The CHAIRMAN. What I'm concerned about is that we get the clearest, cleanest, most direct testimony that we can.

Mr. PARTEE. And I think you do, Mr. Chairman.

The CHAIRMAN. All right. You're talking about facts, not interpretations?

Mr. PARTEE. That's right. Absolutely.

The CHAIRMAN. Do you favor the presidents testifying before Congress on monetary policy matters?

Mr. PARTEE. I don't see any harm in it. They would do that I believe, in their capacity as voting members of the Open Market Committee, so that I would advise choosing only from voting members.

The CHAIRMAN. What about an annual review involving those who have been serving on the Open Market Committee?

Mr. PARTEE. I would have no objection to that.

The CHAIRMAN. How will you, as a Governor, look upon dissenting research by Reserve banks? You have been head of research in the Federal Reserve staff itself. Will you encourage dissenting research such as is done by St. Louis?

Mr. PARTEE. Mr. Chairman, I have been, for the last 6 years, responsible for general oversight of the research function at all of the Reserve banks as well as at the Board, and I do encourage dissenting research. As a matter of fact, I think it essential to avoid having a parochial single-minded view of the research effort. We have to have diversity in approach.

The CHAIRMAN. I hope you encourage it because the St. Louis Federal Reserve Bank has been very valuable to us and economists all over the country because they have been dissenters and given a fresh viewpoint that otherwise we wouldn't get.

Would you favor having the Senate confirm the nomination of Reserve bank presidents?

Mr. PARTEE. I don't know. I have struggled with that question I know that you proposed it and I can see the basis for your wanting confirmation; that is, in the public policy role.

On the other hand, it seems to me to intrude somewhat on the present arrangements for the selection and responsibility and reporting of the presidents and I worry that it might have an unforeseeable effect on the kind of presidents that we would have.

The CHAIRMAN. Why? We confirm the President of the United States. We confirm the Vice President. We confirm you. We confirm

the Chairman of the Federal Reserve Board. We confirm all the top policymaking officials who have public power in the Government. It should be an honor rather than a matter of dishonor. You're suggesting that we can't get as high quality people if we confirm them.

Mr. PARTEE. I pointed out before that the initial selection of a presidential candidate is made by the Board of Directors of the Federal Reserve Bank. I don't know what psychological effect Senate confirmation would have on that selection process out in the Reserve banks. That's my only concern.

I can certainly see your point of view on the matter, but I have a reservation about it in my mind.

The CHAIRMAN. It seems to me it might help provide some degree at least of the feeling of independence on that the part of the Federal Reserve bank president if he had been confirmed by the Senate. He has the Congress to look to as well as the Governors of the Board who now are pretty much sovereign as far as any discretion he has is concerned.

Mr. PARTEE. I would think you could do this through the annual review, as you suggested a minute ago, and as I said, I have not noticed any lack of independence on the part of the presidents.

The CHAIRMAN. One other question. The Board's primary goal is the conduct of monetary policy and yet the Board has highly significant responsibilities over bank supervision and bank holding companies. We have a bill before us, as you know, that would concentrate supervision in one agency. Governor Bucher has indicated that each of the functions of monetary policy on the one hand, and bank supervision on the other, should be separated.

How do you feel about that? Do you think the Federal Reserve Board should try to do both or not?

Mr. PARTEE. I have struggled with this question since I anticipated that you would ask it. I have several points to make.

The first point is that I do believe that some consolidation would be desirable. There is inefficiency, and there is the possibility of unequal treatment and there is the possibility of working at cross purposes in the present regulatory structure. I have seen it occur on occasion over the last few years. So the consolidation is desirable.

No. 2: I'm reluctant to see the regulatory function separated totally from the monetary function. The reason I say this is that there are many questions—public policy questions—in the financial field that have to do with credit policy as much as they do with monetary policy. I don't know that the distinction can clearly be made and that it would be a good idea to have credit policy off in another agency.

The CHAIRMAN. Tell me the difference.

Mr. PARTEE. Well, I believe that monetary policy has to do with the aggregate flow of money and credit, while credit policy has to do with the question of whether it's flowing through the banks or the markets, whether it's flowing into one use or another, and what impact flows from the structure of interest rates.

The CHAIRMAN. It's kind of a subtle credit allocation?

Mr. PARTEE. There is a market that allocates credit and often the Congress and the public at large have been unhappy with the way that the market is allocating credit. That is close to a monetary policy question, and so I have been concerned about a total separation.

The third point I want to make is that I don't believe that the Board has the capacity to engage in detailed oversight of the regulatory process. There are just too many cases. There are too many applications. It would be an exhausting thing if the Board had to handle this for the whole banking system.

Therefore, I come to my suggestion. My suggestion is that this function ought to be within the Federal Reserve System, but it ought to be done at the Reserve bank level with only broad oversight on the part of the Board.

Now let me say to you, Mr. Chairman, that the Federal Reserve banks represent a very valuable national asset. They are substantial institutions in their communities. There are 12 Reserve banks and 25 branches, I believe. They are substantial institutions in their communities and they are well known. They are respected. They have a history in the community. They have good staffs.

I think that we ought to try to figure out a way to make more active use of the Reserve banks and the Reserve bank branches in this regulatory-supervisory activity. My view is that this would be the soundest, best way to go.

So my suggestion would be—and I don't know how practical it is—that the Reserve bank presidents ought to serve in effect as a regulatory committee, perhaps with an administrator in Washington, and with only general oversight of their activities by the Board. I think that would be a constructive thing to do.

The CHAIRMAN. Would you transfer, then, all regulatory responsibilities to the Reserve bank presidents, including the functions of the Comptroller?

Mr. PARTEE. Yes; I believe so, operating as a committee.

The CHAIRMAN. And the FDIC?

Mr. PARTEE. Well, the FDIC—

The CHAIRMAN. At least the FDIC's examination functions?

Mr. PARTEE. There is an argument for not becoming too monolithic in the regulatory operation. The FDIC examines a great many banks, but these banks account for less than 25 percent of the assets of the banking system. It might be a good idea to leave the FDIC separate, or if we wanted to accomplish a coordination and consolidation in the examination function we might go for the proposal for a separate and technical examination board, but with the oversight of the board lodged with the Federal Reserve banks and the FDIC.

The CHAIRMAN. You would give the bank presidents this additional strength and power without having to be confirmed by the Senate?

Mr. PARTEE. I realize that my proposal increases the strength of your argument for confirmation.

The CHAIRMAN. Senator Packwood?

Senator PACKWOOD. Do you personally think that as far as banking in this country is concerned we should move further in the direction of restricting the kinds of activities that banks and bank holding companies can be involved in, or should we be moving in the other direction and broadening the spectrum of activities that we define as banking—or forget the definition—just say they can do it anyway?

Mr. PARTEE. Senator Packwood, we have been moving strongly over the last decade in the direction of permitting banks or their corporate structures—in the form of bank holding companies—to engage in a much wider range of activities than before.

As I look at the experience, I think that it has been a good thing on the whole. It's more competitive in a general sense. But I'm inclined to think we may have gone too fast.

Senator PACKWOOD. Too fast. Not too far, but too fast?

Mr. PARTEE. Yes, too fast. It would have been better, perhaps, if there had been a little more due deliberation in the expansion of these activities and a prior provision for good oversight in the new activities—this was somewhat lacking. As a result of that rapid expansion in the range and kinds of activities in banks and the bank holding companies, on the one hand, and the general economic difficulties we have gotten into on the other, there are a good many banking problems or serious financial problems in the banking empire today. This calls now for a period of pause and I believe that the banks themselves recognize that need. There is, in fact, a period of pause occurring in their expansion efforts—new business efforts.

Senator PACKWOOD. If done at a proper pace, do you think we should let banks start to move into totally nonbanking functions like buying hotels and restaurant chains?

Mr. PARTEE. I don't think so. That would lead to the very real possibility of monopolistic combinations, such as exist in some other countries.

Senator PACKWOOD. No other questions, Mr. Chairman.

The CHAIRMAN. I have one other question. I apologize, but it will just take a minute.

What's your opinion of the House Concurrent Resolution 133 requiring the Federal Reserve Board to set the specific numerical monetary goals and then to report to us quarterly? My question is, is the consultation procedure called for in 133 the appropriate way for Congress, in your view, to monitor and oversee the conduct of monetary policy?

Mr. PARTEE. Mr. Chairman, it's still in the experimental phase, but I must say I'm most happy with the concurrent resolution up to this point. I think that the oversight hearings have made a contribution. I think that the periodic opportunity for the appropriate congressional committees to ask searching questions and to indicate their views as to monetary policy have been helpful. As long as we keep in mind the need for a degree of flexibility within the operational framework of Concurrent Resolution 133, it looks to me to be a highly successful venture.

The CHAIRMAN. Any suggestions on how we could improve it?

Mr. PARTEE. No. I think we will have to live with it and develop it as we go along.

The CHAIRMAN. Mr. Partee, thank you very much. I agree with Senator Sparkman. You are eminently qualified and most responsive and helpful. I disagree with you, as you may know, on some of your answers, but I have no question about your capacity to serve as an outstanding Governor of the Federal Reserve Board. Thank you so much.

Mr. PARTEE. Thank you, Senator.

The CHAIRMAN. Our next witness is Stephen McKenzie DuBrul. Mr. DuBrul is nominated as the Chairman of the Export-Import Bank.

Mr. DuBrul, you have a background that really fascinates me because you and I have both had similar experiences. We were both in the counterintelligence corps. We both went to Harvard Business School. We both went to Wall Street to work first, and you have had a lot more success in Wall Street than I had. My peak salary was \$25 a week, so I had a worm's eye view.

Let me give you the oath. Do you swear that the testimony you are about to give shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. DuBRUL. I do.

The CHAIRMAN. All right, sir.

[Biographical sketch of Mr. DuBrul follows:]

#### BIOGRAPHICAL SKETCH OF STEPHEN MCKENZIE DuBRUL, JR.

Home address: 171 East 73d Street, New York, N.Y. 10021.

Date of birth: March 18, 1929.

Place of birth: Detroit, Mich.

Married: Antonia Paepcke, Chicago, 1957. Two children: Nicholas (1966,) Jennifer (1972).

Schools: Parochial elementary schools, Grosse Pointe, Mich. University of Detroit High School, Notre Dame, 1946-48. University of Michigan, 1948-50, B.A. Harvard Business School, 1954-56, M.B.A. with distinction, George F. Baker scholar.

Work: Central Intelligence Agency, Washington, D.C. 1950-52. Army CIC, 902d Detachment, Pentagon, 1952-54. Associate in corporate finance, Lehman Brothers, 1956-60. Partner, Lehman Brothers, 1961-70 (Member, Executive Committee) 1968-70. Senior Managing Director and Director, Lehman Brothers, Inc., 1971-72. General partner, Lazard Freres & Co., 1972-present.

Affiliations: Consultant, Council of Economic Advisers, 1961-65 (consumer problems). Governor, Association of Stock Exchange Firms (represented owners of securities firm with NYSE, SEC, and public) 1968-71. Director, Securities Industry Association (successor to ASEF) 1972-present. (Member of SIA Executive Committee, 1972-73 representing Corporate Finance Matters).

Member, Council on Foreign Relations 1972-present. President, Harvard Business School Association, 1971-72. Member, Visiting Committee to Harvard Business School 1972-present. Trustee, Carnegie Foundation for Advancement of Teaching, 1974-present. Chairman (1975), President (1973-75), and Director (1963-present), Visiting Nurse Service of New York. Trustee, Buckley School in New York, 1973-Present. Trustee, International House, 1972-present.

Business Activity: Investment banker, specializing in industrial corporation financing and including: Financial and strategic planning, public and private fund raising, mergers and acquisitions, domestic and foreign.

Corporate Directorships since 1961: \*Acme-Cleveland Corporation (international machine tools) Continental Can Corp. (international packaging). \*General Dynamics (defense and natural resources). \*Jewel Companies (food retailers). May Department Stores (retailers). Midland-Ross Corp. (capital goods). \*RCA Corp. (communications, electronics). \*Signal Companies (diversified industries). \*Weatherhead Company (fluid power components).

Senator PACKWOOD. Mr. Chairman, could I ask a favor? Yesterday I objected and got unanimous consent on the Angola situation because I had some questions I wanted to ask, and if I don't go down there for this closed session my name is going to be mud with Senator Mansfield.

The CHAIRMAN. I will be happy to yield to Senator Packwood.

Senator PACKWOOD. I talked to the nominee yesterday and I want to ask him a specific question that's in terms of using the powers of the Export-Import Bank to further or impede détente.

Do you think it ought to be in your discretion to deny loans to Russia, to Communist countries in furtherance of a general foreign

\*Currently serving.

policy, or do you think that is not the function of the Export-Import Bank?

Mr. DuBRUL. As I read the legislation governing the Bank, Senator, we are precluded from making loans to Communist countries with the exception of Poland, Romania, and Yugoslavia.

As a banker, I think we have to be sensitive to the political risks as well as the commercial risks in lending money. If it is the political view of the Congress and the administration that we may have strained relations with these countries, it would be my view as a banker, that we would have to take that into consideration in making any loans to those countries.

Senator PACKWOOD. But you think that's a decision that is political that should be initially made with the Congress and the administration, not yours, as a philosophical banker?

Mr. DuBRUL. I wouldn't operate as a philosophical banker. I would be a practical banker in that regard.

Senator PACKWOOD. Thank you very much.

The CHAIRMAN. Mr. DuBrul, do you agree to testify before appropriate congressional committees when requested to do so?

Mr. DuBRUL. I will.

The CHAIRMAN. Now this committee, as you may know, has had some difficulty with a former Chairman of the Export-Import Bank. When Mr. Henry Kearns was before this committee for confirmation he asked that the 100,000 shares of a company he owned be placed in a blind trust because he was unable to sell the stock at that time. He couldn't sell it because it was virtually worthless. He put the shares in a blind trust—and he called it "a blind, no-control trust" that would completely remove any administration, interest, control, or other association with this company during his tenure of office.

But after Mr. Kearns became Chairman of the Export-Import Bank he personally solicited the sale of his stock in Mitsui Co. He did this while head of the Bank, sold the stock while head of the Bank, received much of the proceeds from it. Furthermore, he passed on some 37 loan agreements with Mitsui while head of the Bank and he sold his almost worthless stock for \$5 a share to Mitsui. That's a half million dollars.

Meantime, the Export-Import Bank had given the most favorable loan terms in its history to the firm. Then, while appearing before the Senate Appropriations Committee, he testified that he had not exercised any control over the stock at a time when he had himself taken part in selling it.

Now the Justice Department refused to move on that point because he was not under oath at the time. Because of having been burned once, you can understand, Mr. DuBrul, why this committee will want to determine in every possible way that there will be no similar actions by you or any future head of the Export-Import Bank.

Mr. DuBRUL. Mr. Chairman, I have a statement on that.

The CHAIRMAN. Fine. Go right ahead, sir.

Mr. DuBRUL. I filed with your committee a financial disclosure statement. I also wrote a covering letter to you which is, in substance, as follows: If favorably received by this committee and confirmed by the Senate, I would resign forthwith from the investment bank of which I am a partner and withdraw all my funds. I would resign from

all corporate boards of directors on which I now sit. I would sell all shares of stock in companies which have or may be perceived as having export involvement. I would also place virtually all of my and my family's liquid assets in fixed income securities while I serve in public office, filing with this committee a list of securities held upon completing this transition. Finally, upon entering public service, I will have no commitments, understandings, or other arrangements, explicit or implicit, with any person or enterprise in the private sector.

The CHAIRMAN. All right, sir. You will, nonetheless, as you say, sell your stock, but you will retain your bond holdings. I gather that's on the assumption that there can be no conflict of interest with bonds.

Mr. DuBRUL. Yes, sir. They would be U.S. securities, not foreign securities.

The CHAIRMAN. They wouldn't be corporate bonds?

Mr. DuBRUL. I haven't asked for portfolio advice yet, but it would be my intention that they be quasi-governmental or governmental securities.

The CHAIRMAN. You mean municipal obligations and so forth?

Mr. DuBRUL. Yes. Tax-exempt securities for the most part. Agencies, maybe industrial revenue bonds and that sort of thing. But I would not have any equity securities other than those already disclosed to the committee.

The CHAIRMAN. Again, I want to explain that this is because of the problem we had with your predecessor once removed, not with Mr. Casey but with Mr. Kearns.

What do you think you might do upon leaving Government service?

Mr. DuBRUL. I have no idea.

The CHAIRMAN. Do you think Lazard Freres would invite you to return? If so, would you go back?

Mr. DuBRUL. I have no idea, but I doubt that I would return.

The CHAIRMAN. Do you have any informal understanding with Lazard Freres that you would be welcome to rejoin the firm?

Mr. DuBRUL. I have solicited none. I have received none. I will obtain none.

The CHAIRMAN. Do you retain any financial interest in the firm?

Mr. DuBRUL. Absolutely not. I think it will take about 30 or 40 days to get my money back from the firm.

The CHAIRMAN. Do you have any informal understanding that you would resume service as a director of any company?

Mr. DuBRUL. No. I have no implicit or explicit arrangements of any kind, financial or otherwise, with anyone.

The CHAIRMAN. As you have said in your letter which you summarized for us, you have offered to resign your directorships and sell your shares in publicly traded companies which might be involved in Export-Import Bank transactions within 30 days of your confirmation.

Will you confirm to the committee in writing that this has been done in fact?

Mr. DuBRUL. Yes, and I will submit a list to the committee of the securities which I then would hold.

The CHAIRMAN. And none of the reinvestment which you make, none of that would be with firms that would have anything to do with the Export-Import Bank? You said that would be Government or quasi-Government agencies?

Mr. DuBRUL. Or other fixed-income securities.

The CHAIRMAN. Once you put your assets into fixed-income securities do you intend to retain all of these investments during your Government service, or do you expect to do any trading?

Mr. DuBRUL. I would not expect to do any trading. I really haven't focused on that issue. I'm perfectly willing to file with any appropriate body, including this committee—

The CHAIRMAN. I can see nothing wrong with trading as long as it's not into and out of publicly held firms that might have something to do with your Bank.

Mr. DuBRUL. I'm very sensitive to that.

The CHAIRMAN. Obviously, if you want to trade in and out of Government securities, that's something else.

Mr. DuBRUL. I am very sensitive to the point you make.

The CHAIRMAN. And if you did the other, would you notify the committee?

Mr. DuBRUL. Absolutely.

The CHAIRMAN. Now, Mr. DuBrul, are you familiar with the GAO report on the Export-Import Bank?

Mr. DuBRUL. I have read the report.

The CHAIRMAN. Let me ask for your comment. I will read the digest. It's very short. I will read it in less than a minute and get your comment on it.

Eximbank has expanded its operations without expanding its income. Its risk of incurring possible losses on loans, guarantees, and insurance has doubled during the last 6 years, while its reserve accumulated from income to cover such losses has remained relatively stable.

Income actually has declined during each of the last 3 years. The disparity between changes in risk and income might prove to be a subsidy of current exports, to be paid from past capital accumulations and, possibly, from future appropriations.

Eximbank's risk will continue to increase, and its prospects for improving income materially in the near future are not encouraging. The problem is that Eximbank must borrow funds to finance its expanded operations, and it has been paying more interest for borrowed funds than it has been earning on the loans for which funds are borrowed.

It is an especially serious problem because Eximbank has been financing long-term loans with short-term borrowings; consequently, it will have to pay undeterminable interest costs to reborrow funds already disbursed on loans earning income at a fixed rate.

Eximbank has taken steps to increase its income, but additional measures are needed to help improve its financial condition as soon as possible.

Now GAO recommends that the Eximbank raise its interest rate on direct loans made to finance sales for which little or no foreign competition exists to the rate charged by commercial lenders and adopt as its goal complete correlation of borrowing and lending repayment periods, and begin to work toward reaching that goal as soon as practicable, consistent with best available judgments regarding future changes in interest rates. And Eximbank has neither disagreed with these recommendations nor made a commitment to adopt them completely.

How do you feel about those recommendations?

Mr. DuBRUL. Well, as with many banks these days, greater attention is being paid to liability management. It would be one of my earliest acts to sit down with the Comptroller General so I can decide what, if any, steps not already taken by Chairman Casey and his staff may be required.

I also have asked to receive internal reports on the analysis of the risk exposure, country by country and loan by loan. I have no ready solution for the declining income of the Bank, which is attributable to the spread between the cost of borrowing money and the yield on the present portfolio. I just have not gotten into that kind of detail. I am very aware of this problem, however.

The CHAIRMAN. Well, do you intend to give high priority to the task of improving the Bank's financial condition by raising interest rates on the loans that you make?

Mr. DuBRUL. If the market requires that, I definitely would. In the meantime—

The CHAIRMAN. By if the market requires it, you mean if you have to pay as much as the Bank has had to pay for money in the past you would raise interest rates on your loans?

Mr. DuBRUL. The Bank is faced with a rather exquisite dilemma of trying to be competitive with the official credit terms being offered by other countries and at the same time to be a self-sustaining institution and not burden the public sector for its financing. I do believe that to be a high priority. In view of the fact that this report has been delivered, I must say, as a banker in the private sector, that, with respect to any company that I was going into either to sponsor or to finance, one of my first stops has been to talk with the outside auditors. That's where I'm going after the first of the year.

The CHAIRMAN. I think that will be a good move. Let me ask you—including the GAO?

Mr. DuBRUL. Yes, sir. They are the outside auditors.

The CHAIRMAN. The Bank has received a great deal of criticism for making low interest rate loans to finance exports for which there's no real foreign competition. For example, sales of 747's and other large airplanes. Do you believe that the Bank should charge market rates for large sales in which there is little or no foreign competition?

Mr. DuBRUL. Again, my private experience has been to try to be as competitive as possible but not to charge rates that are not economically feasible. I have read the testimony before this committee last year on such things as the loans to foreigners to purchase wide-bodied aircraft. I have also asked to have an analysis of those loans as compared to what other credit terms might have been available in the private market. Going forward, I would think that, in this day and age where just the sheer availability of funds is so critical, the interest rate becomes in many cases less important than the availability of funds. Therefore, the general answer to your question is that that the bank ought to attempt to set realistic rates on those projects which are, as you say, noncompetitive, if they are truly noncompetitive.

The CHAIRMAN. It's a matter of whether or not the subsidized rate is necessary. In this case, it seems to me it's not necessary, if my assumptions are correct. If that's the case, it would seem to me it would be very hard to justify.

Mr. DuBRUL. Mr. Chairman, as I said, I think in this day and age just the sheer availability of money is often more important than the interest rate.

The CHAIRMAN. I have some more questions.

Senator Garn?

Senator GARN. I have no questions Mr. Chairman.

The CHAIRMAN. The GAO report also contends that your Bank should either promote exports on a self-sustaining basis or more clearly identify the subsidy element in its operation. It's clear to me that the Bank does, in effect, subsidize exports by the back door, that is, through concessionary loans from Treasury and through paying low dividends on its \$1 billion capital stock held by the Treasury. Last year they paid \$20 million back or 2 percent. Now obviously, the cost of money to the Federal Government is 7 percent, so that constituted one way or another some kind of a \$50 million or 5 percent subsidy.

Now if you figure the entire capital, including the earnings which after all belong to the people of our country, belong to the Federal Government, it was a \$2.6 billion capital structure and the \$20 million payment was less than 1 percent. So it constitutes a very substantial subsidy.

Do you agree that the Export-Import Bank does in fact subsidize exports?

Mr. DuBRUL. By its charter, Eximbank is charged with being competitive with foreign export credit agencies that are facilitating exports. We have, as I say, an exquisite dilemma as between being a self-sustaining institution and facilitating exports. Most other foreign official export credit agencies with which I'm familiar are furnished outright subsidies through Government appropriations in facilitating those exports. The Export-Import Bank does not have that outright subsidy.

The CHAIRMAN. Now outgoing Chairman Casey and his predecessors have argued that the Export-Import Bank must make below-market loans so that American exporters can compete successfully with subsidized rates offered in other countries, which is what you have been telling us, that you have that exquisite problem of meeting that. Do you believe that we should place a priority on export promotion even if it means subsidizing exports one way or another, or should we only support exports that are self-sustaining?

Mr. DuBRUL. The charter of the Bank is fairly clear. We must aid in the financing of exports, but at the same time we must be self-sustaining. That implies the need to be able to make loans where your income equals your expenses. You have correctly pointed out that, in the last several years, there's been a decline in the earnings of the Bank because the loan portfolio is at a yield that is or has been, in certain years, below its cost of money.

The CHAIRMAN. Well, you see that raises the question of whether when we subsidize exports we do it at the cost of meeting our domestic credit needs.

Mr. DuBRUL. The money is borrowed at competitive rates. The financing through the Federal Financing Bank has been at open market rates. To that extent I wouldn't say that money has been obtained at subsidized rates.

The CHAIRMAN. Well, you have borrowed money at competitive rates but you have loaned it at below market rates.

Mr. DuBRUL. I have not, Senator.

The CHAIRMAN. I don't mean you. I mean the Bank has done so.

Mr. DuBRUL. That is an observation that's been made.

The CHAIRMAN. In doing so, just as when the Federal Government goes out and borrows money, it crowds out the private sector borrow-

ing, increases demand and raises the interest rate. So in this case, that's precisely what the operations of the Export-Import Bank do.

Senator GARN. Mr. Chairman, I'm very happy to hear that you have finally agreed with me on the crowding out theory and I want to make sure that's in the record.

The CHAIRMAN. It's not a matter of agreeing. I maintained that position before the Senator from Utah was born.

Senator GARN. You need to start applying your philosophy and quit voting for those deficits then.

The CHAIRMAN. The Senator from Utah has been voting for more spending programs than the Senator from Wisconsin. I was the only Senator that voted against the highway program and the Senator—but this isn't quite relevant.

Isn't it true, though, that when we provide the kind of subsidy which the Export-Import Bank does provide and it lends money at a rate below what the borrower could get in the market, it tends to divert money from domestic credit needs to the export market and, in effect, really subsidizes the foreign buyer?

Mr. DuBRUL. The question is in several parts, Mr. Chairman. Going to the question about subsidizing the foreign buyer, I start again with the philosophy that we would attempt to make loans where they might not otherwise be available and that we should attempt to reflect that fact in rates which would not constitute a subsidy.

Whatever the history of the Bank has been need not necessarily determine what is to happen in the future. The Bank enjoyed a period of time over the last 10 years or so when the rates at which they were making loans would have been comparable to the domestic rate, prime rate of the commercial banks and intermediate term credits.

More recently, this problem has been dramatically exacerbated, as pointed out in that GAO report. Market rates in the United States moved up faster than the rates of the Bank. I believe you would agree that Chairman Casey has attempted to be responsive to market rates as they now exist.

The CHAIRMAN. The question is whether or not the Bank has been responsive enough and whether they will be under your leadership.

Mr. DuBRUL. I would certainly hope it would because I'm sensitive to this question of the cost of money to the Bank and the rate at which it lends its money.

The CHAIRMAN. We have had vigorous debates on the floor of the Senate over the importance of our balance of payments and favorable balance of payments, and I think there's been considerable development and understanding on our part of the balance of payments' significance in the last couple years. Floating exchange rates have played some part in this. With floating exchange rates I just wonder if going all out for favorable balance of payments is as essential as it was viewed before. After all, if our balance of payments is adverse, that tends to diminish the value of the dollar and it's self-correcting with the floating exchange rates.

Mr. DuBRUL. That is one view. Given this imperfect economic world in which we live, there is a distinct role for an organization such as the Export-Import Bank to assist in insuring that exports can be effected. I have been impressed over my years in business with the de-

gree to which both small and large businesses have been helped in their employment and fiscal health by that extra margin of business attributable to exports. I have reviewed the debate that was held in 1974 on this subject and I don't think it was totally conclusive as to whether or not floating rates independently cured any balance-of-payments problems this country might have.

The CHAIRMAN. When you look at this globally, we compete with other countries by reducing our export borrowing rates lower than they otherwise would be. Other countries do the same thing. The overall effect is to distort the market. The overall effect is to really benefit, I suppose, the foreign buyer and doesn't seem to me to be helpful or logical or constructive.

Mr. DuBRUL. It's my impression, Mr. Chairman, that Chairman Casey has been quite active, as has the staff in the Bank, in attempting to stabilize this competition from other foreign banks extending credit in the export market. That's the so-called "gentlemen's agreement." I have an appointment with Mr. Casey after the first of the year where one of the things we want to sit down and decide is how to proceed to further that agreement to abate rather than increase credit competition.

Competition in exports should be based upon price, quality and service and not have to be totally dependent upon whether or not credits are made available by foreign governments for those projects.

The CHAIRMAN. That's very, very welcome news. I'm glad to hear that. I didn't know that before you just told me this morning and anything I can do to encourage that I certainly want to do. I think that's most helpful.

Mr. DuBRUL. It's going to be a difficult task.

The CHAIRMAN. Most competition is healthy and wholesome and good, but this kind of competition seems to me to be adverse to a private market and to be most harmful.

Mr. DuBRUL. Agreed.

The CHAIRMAN. Can you keep us posted on the progress of this study, this approach?

Mr. DuBRUL. I definitely will. This has been a painful process from what I understand from the staff at the Bank. Cooperation has not come easily from all of the other industrial countries that have similar credit facilities, but some progress certainly is being made.

The CHAIRMAN. You will be working with other countries. What type of officials in other countries will you be working with to achieve this harmony?

Mr. DuBRUL. The specifics I do not know, but I am generally familiar with the fact that we have, through the OECD, the European Community and the Berne Union, an association of the export credit and insurance facilities of other countries, including those of England, France, Italy, Germany, Japan, and Canada.

The CHAIRMAN. I'm sorry. I missed the last part of your answer.

Mr. DuBRUL. There are formal and informal associations among the Export-Import Bank and other comparable foreign facilities such as those of England, France, Italy, Germany, Canada, and Japan. These associations are for the purpose of exploring problems of mutual interest.

The CHAIRMAN. Is the Berne Union comprehensive enough? Are there enough major trading countries involved so they could take action and do so without seriously handicapping—

Mr. DuBRUL. They are the leading industrial countries in the non-Communist world.

The CHAIRMAN. Leading trading countries?

Mr. DuBRUL. Correct.

The CHAIRMAN. Finally, how do you explain the dramatic shift of our basic payment balance from large deficits to surpluses even in the face of the oil price rise?

Mr. DuBRUL. Of great importance is the fact that we have been in a recession, that our imports necessarily, other than petroleum products, have been down. At the same time—

The CHAIRMAN. Well, other countries have been in as deep a recession and are recovering more slowly than we are.

Mr. DuBRUL. At the same time, we have also had a favorable relationship between the dollar and competing currencies which has made it possible, again from my private experience, for many capital goods companies in this country as well as agricultural enterprises, to be able to compete on price better than they have in probably any time in the post World War II period.

The CHAIRMAN. When you say favorable dollar, that means floating rates again?

Mr. DuBRUL. It does. The dollar as against the deutsch mark, for example.

The CHAIRMAN. Of course, the food element is a big one.

Mr. DuBRUL. It certainly is.

The CHAIRMAN. Mr. DuBRul, you are obviously well qualified and I'm happy to support your nomination. You have a fine educational background and excellent experience with Lazard Freres.

Could you just give me a brief résumé of your experience in international banking that would be pertinent for your present assignment? I realize Lazard is one of the biggest international traders in the world—financiers, I should say, not traders.

Mr. DuBRUL. In the 16 years prior to Lazard Freres, I was at Lehman Bros. which is heavily involved with international banking. As a partner in those two firms for the last 15 years, and as an associate in Lehman Bros. prior to that time, I have been directly involved, in both domestic and foreign markets, in the financing of billions of dollars of credit for both small and large companies in both the United States and around the world. These have not been foreign government credits. On the whole, most of my experience has been in the private sector rather than government credits.

Beyond that, I have worked at the problems of where, in this scarce money environment, money will be available for the long term. I might also say, Mr. Chairman, that my instincts and training in merchant banking, as distinct from commercial banking, lead me always to be very sensitive to the fact that a merchant bank has to deal with large amounts of money but very little capital of its own. The direction in which Mr. Casey has taken the Bank in terms of being flexible and trying to minimize the exposure of the Bank in each loan transaction, reducing the Bank's participation, is much in line with my experience as an investment banker, where we try to bring together others from

the private sector to be able both to facilitate the loan and to take the lead in seeing that the financing is properly structured but at the same time minimizing our own capital commitment to those projects.

The CHAIRMAN. Well, I hope you will keep us posted on several things. One, the progress that you make in minimizing this aggregating competition for who can give the biggest subsidy in the various countries. Also, in meeting the recommendations made by the GAO in the report that we discussed; and also, increasing the dividend that you're able to pay to Uncle Sam in view of the fact that you do have \$2.6 billion of Federal money available and \$20 million dividend is pretty pathetic. I'd like to borrow money on a 1 percent basis and I know you would, too.

Mr. DuBRUL. Mr. Chairman, I have been to many stockholder meetings and you sound like a stockholder, I must say. I will do that.

May I make one last observation? You have been most kind and laudatory. I checked with the dean of the Harvard Business School and I find out that you are the only Member of the U.S. Senate who's a graduate of that institution. I do not know if you were aware of that.

The CHAIRMAN. I am aware of that.

I want to congratulate you on one other element that we haven't commented on. I grew up in suburban Chicago and I see that you have married a lovely young lady from Chicago and she has graced our presence this morning and we are very grateful that you brought her with you.

Mr. DuBRUL. Thank you very much.

The CHAIRMAN. It has improved the attractiveness of the room considerably.

I'm going to ask you if you would answer questions for Senator Stevenson who, unfortunately, had to leave. He had to be on the floor. And perhaps there are other members of the committee who would like to ask questions, if you would do that for the record.

Mr. DuBRUL. Yes.

The CHAIRMAN. Thank you very much.

The committee stands adjourned.

[Whereupon, at 11:05 a.m., the committee was adjourned.]

[Mr. DuBrul subsequently received written questions from Senator Stevenson. The questions and his response to them follow:]

#### QUESTIONS FOR MR. DuBRUL FROM SENATOR STEVENSON

1. Question. To what extent, if any, do you believe the Bank should be responsive to (a) the foreign policy interests and (b) the domestic economic interests of the U.S.?

Do you think, *e.g.*, that it should be concerned about the implications of financing for nuclear power projects in unstable parts of the world, in countries which have not joined the NPT, or in countries which pursue foreign policy interests which are inimical to our own?

Do you think that the Bank should finance projects in the Soviet Union without regard to their potential military implications? How about other capital projects in the Soviet Union and elsewhere which could result in competition for American products abroad?

Do you think that the Bank should finance energy development abroad without regard to the availability of materials of technology for energy development in the U.S.?

What criteria should be applied in determining whether the export of such materials or technology should be financed?

How do you intend to go about insuring consistency between Bank policy and U.S. national policy? What procedures will you adopt?

Answer. The Bank's mandated function is to support American exports. To do this it must exercise judgements on the need for its services in a given situation, the creditworthiness of borrowers and the impact of its activities on the U.S. economy.

U.S. policy and domestic economic policy considerations must certainly enter into these judgments, although the Bank is not itself a foreign or economic policy-making institution. The Bank is guided in these respects by those agencies whose primary function it is to determine such policies.

At present, for instance, every Eximbank credit is sent to the Department of State to determine whether there is a foreign policy consideration which should be considered.

Overall policy on nuclear exports is determined by the Congress. Prior to any Eximbank nuclear power authorization, a case is reviewed by the Inter-Agency Nuclear Proliferation Bank Stopping Committee comprised of representatives of 18 offices and chaired by the Arms Control and Disarmament Agency, a prime consideration being whether a foreign government is a signatory to the non-proliferation treaty. At the discretion of the ACDA, appropriate agencies are asked to submit their views.

On matters concerning the Soviet Union, where the Bank is currently restricted from authorizing credits, the Congress and Department of State are the chief policy-determining bodies.

Eximbank is required by its legislation to take into account in our decisions any potential adverse impact on the U.S. economy of any export. On energy-related exports Eximbank seeks the views of the Federal Energy Administration as to whether there may be an adverse impact.

In all of these cases, these other agencies are in a better position to make policy judgments than is the Bank.

Within the general policy guidelines established by these other groups and institutions, Eximbank exercises its judgment on individual cases using the economic and financial criteria it is uniquely able and empowered to apply.

To insure consistency between Eximbank policy and U.S. foreign policy, we coordinate our export financing plans through consultation with other Government agencies and with the National Advisory Council, an interagency group with representatives from State, Commerce, Treasury, the Federal Reserve, and Eximbank, whose job is to coordinate the policies and operations of agencies involved in making foreign loans or otherwise engaged in foreign financial transactions.

*2. Question.* To what extent do you think the Bank should attempt to avoid financing of exports for which there is no major foreign competition (e.g., jet aircraft)? How do you intend to go about insuring that financing is not provided unnecessarily, as in the case of exports for which no significant foreign competition exists or in the case of financing for many parent-subsidiary transactions?

Answer. I have read the testimony before this Committee last year on such things as the loans to foreigners to purchase wide-bodied aircraft. I have also asked to have an analysis of those loans as compared to what other credit terms might have been available in the private market. I would think that the Bank, in this day and age where just the sheer availability of funds is so critical, the interest rate becomes in many cases less important than the availability of funds. Therefore, the general answer to your question is that the Bank ought to attempt to set realistic rates on those projects which are, as you say, non-competitive, if they are truly non-competitive. Under such a policy there would be no incentive for foreign buyers to seek Exim assistance unless such assistance is essential to facilitate the export. The issue of parent-subsidiary transactions is recognized by Eximbank as a sensitive area and the Bank takes special care to ensure that all such transactions are identified and that the need for Eximbank assistance is clearly established.

*3. Question.* In your view should the Bank concentrate its efforts on financing large capital projects abroad as contrasted with promoting exports of finished U.S. goods? What criteria do you intend to apply in allocating your efforts in this regard?

Answer. The Bank should concentrate its efforts in financing those goods where maturity requirements or competitive pressures necessitate an Exim presence if the U.S. export is to be consummated, whether the project involves capital goods or finished goods. Generally speaking, the absence of adequate or competitive private export financing would be a useful criteria for determining the need for Exim involvement.

*4. Question.* How do you intend to maximize private bank participation in Exim financings? Should the ratio of Exim to private financing be fixed or should

it vary (a) from transaction to transaction, (b) by type of export, or (c) in some other fashion?

How about interest rates? Should they be fixed or should they vary as well?

Answer. I expect to apply my experience in merchant banking—in which large financing packages have to be put together with maximum investor participation—to the similar problems of Eximbank. Certainly, it would be unrealistic if not ill-advised to establish rigid participation ratios. Eximbank's role should be to create a situation in which maximum private sector participation will be forthcoming, and to do this it must be sensitive to factors such as the country situation, the borrower, and the nature of the export.

By the same token, interest rates must reflect the cost of money to the Bank where possible without impairing the competitiveness of an export transaction. This underlying approach should be flexible enough to accommodate the competitive and financial realities involved in a given case.

5. *Question.* A recent GAO audit criticized the Bank for having put itself in a precarious financial position through its policy of borrowing short and lending long. Have you studied that report? If so, what is your reaction? How do you meet GAO's criticism?

Answer. I have read the report. It would be one of my earliest acts to meet with the GAO so I can decide what, if any, steps not already taken by Chairman Casey and his staff may be required. I have also asked to receive internal imports on the analysis of the risk exposure, country by country and loan by loan. I have no ready solution for the declining income resulting from the adverse trend of rapidly rising borrowing costs versus relatively stable yield on the present portfolio. I have not yet gotten into details there, but, I am very aware of this problem.

6. *Question.* What is your attitude toward international credit competition among foreign export-import banks? Should the U.S. meet that competition? Should it take the lead in attempting to reduce that competition? What form should an agreement on reducing competition take? Should it encompass maturities as well as interest rates? Should the amount and type of financing depend on the kind of product exported? Should the amount and type of financing depend on the GNP of the recipient country as the Europeans are urging? Doesn't that mean that better terms would be available for wealthier countries than the poorer countries? E.g., the Soviet Union, with a GNP second only to that of the U.S., would be put in a preferred position *vis a vis* all other countries. Why does that make any sense?

Answer. One of my first objectives of the new year is to sit down with the Board and decide how Exim should proceed in the negotiations on the Gentlemen's Agreement to abate, rather than increase, export credit competition. This is a very complex question and I have not yet gotten into the details of what form or substance an agreement should have, but I can say that I believe competition in exports should be based on price and service and not be dependent upon whether or not official export credits at subsidized rates are made available by other government agencies around the world.

I am told that negotiations have been on the basis of *per capita* GNP rather than *country* GNP. On this basis, the Soviet Union is not the second richest, but is rather far down the list. Moreover, the logic of recent negotiations has been to provide *poorer* terms (higher interest rates and shorter maturities) to the *higher* per-capita-GNP countries. Hence, the "richer" the country, the less preferred position as to official export financing availability.

7. *Question.* A recent article in *Barrons* and other articles in the *Wall Street Journal* have questioned the need for the Export-Import Bank. What justification is there for government subsidies and governmentally-induced transfers of funds to the export sector.

Answer. Exports are a growing and important sector of the U.S. economy, yet this sector—as in, for example, housing, transportation and agriculture—is characterized by certain market imperfections which, if left uncorrected, would result in a suboptimal level of output. It is an appropriate and legitimate function of government to act to correct such imperfections, just as government has acted to correct similar imperfections in other sectors of the economy. The activities of the Eximbank are designed and implemented with the objective of "supplementing", not "distorting," market forces. Exim assistance enables the market to complete transactions that the market would have completed on its own if there were no financing imperfections. Hence, Exim is assisting the market to obtain market objectives, not reallocating market resources to obtain government objectives.